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A Culture of Commitment by Herb Kelleher

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WHAT'S the secret to building a great organization? How do you sustain consistent growth, profits, and service in an industry that can literally change overnight? And how do you build a culture of commitment and performance when the notion of loyalty -- on the part of customers, employees, and employers -- seems like a quaint anachronism? I can answer basically in two words: *be yourself*.

That is both a simple and a profoundly difficult goal. It means spending less time benchmarking best practices and more time building an organization in which personality counts as much as quality and reliability. It also means cultivating an ability to embrace paradox.

Southwest Airlines has a reputation as the wild and crazy guy of commercial aviation. Yet in many ways we are the most conservative company in our industry. We have always maintained a strong balance sheet, watched our costs, and paid as much attention to our financial fitness in good times as in bad. That discipline lets us move quickly when opportunities come our way. From 1990 to 1994, for instance, when the airline industry lost \$12.5 billion, we were able to buy more planes and enhance our capacity to compete in today's growing market.

But you can't just lead by the numbers. We've always believed that business can and should be fun. At far too many companies, when you come into the office you put on a mask. You look different, talk different, act different -- which is why most business encounters are, at best, bland and impersonal. But we try not to hire people who are humorless, self-centered, or complacent, so when they come to work, we want them, not their corporate clones. They are what makes us different, and in most enterprises, different is better.



Culture Defines Personality

A financial analyst once asked me if I was afraid of losing control of our organization. I told him I've never had control and I never wanted it. If you create an environment where the people truly participate, you don't need control. They know what needs to be done, and they do it. And the more that people will devote themselves to your cause on a voluntary basis, a willing basis, the fewer hierarchs and control mechanisms you need.

We're not looking for blind obedience. We're looking for people who on their own initiative want to be doing what they're doing because they consider it to be a worthy objective. I have always believed that the best leader is the best server. And if you're a servant, by definition you're not controlling.

In an organization like ours, you're also likely to be a step behind the employees. The fact that I cannot possibly know everything that goes on in our operation -- and don't pretend to --



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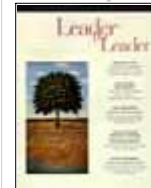
Herb Kelleher, chairman, president, and CEO of Southwestern Airlines, has been called perhaps the best CEO in America by Fortune magazine. Under his leadership, Southwest has become the most consistently profitable, productive, and cost-efficient carrier in the industry. It has also earned the "Triple Crown" award for best on-time performance, baggage handling, and customer satisfaction for four years running. (3/97)

[More on Herb Kelleher](#)



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is a source of competitive advantage. The freedom, informality, and interplay that people enjoy allows them to act in the best interests of the company. For instance, when our competitors began demanding tens of millions of dollars a year for us to use their travel agents' reservations systems, I said, forget it; we'll develop an electronic, ticketless system so travel agents won't have to hand-write Southwest tickets -- and we won't be held hostage to our competitors' distribution systems. It turned out that people from several departments had already gotten together, anticipated such a contingency, and begun work on a system, unbeknownst to me or the rest of our officers. That kind of initiative is possible only when people know that our company's success rests with them, not with me.



Personality Is Strategy

WHAEN you start out, as we did, having to operate as an intrastate airline, that pretty well dictates your market niche. You build a low-cost, high-frequency point-to-point operation rather than the hub-and-spoke system that others had. And you make that apparent market weakness into an operational strength.

With deregulation, that market strategy was in question. Suddenly any carrier was free to compete with any other. We could have brought in 747s and flown nonstop from New York to Los Angeles, or Dallas to London. It was a defining moment. Howard Putnam, our president and CEO at the time, wisely asked people throughout the company to think about our future and the kind of organization we wanted to be. We decided not to go head to head with the international carriers, but to build on the strategy that had worked so well for us in the past.

Over the years we developed not only a different strategy, but also a different strategic planning process. Basically, we just don't do it. In an industry where a two-week plan is likely to become obsolete, to spend days debating whether we're to serve Trenton, New Jersey, in 2003 is a meaningless exercise. Life is chaotic; in the airline business it's anarchic. So rather than trying to predict what we'll do, we try to define who we are and what we want, in terms of market niche, operational strategy, and financial health. We reflect, observe, debate -- and we don't use our calculators.

Several years ago, for instance, our marketing group met with one item on the agenda: What is the next decade going to be like in the United States societally? We concluded that people were going to be much more value-conscious than they were during the 1980s. That ran in our favor -- and helped validate our strategy. So our strategic planning is an effort to establish flexible goals and guideposts, not detailed action steps: What kind of debt-equity ratio do we want on our balance sheet? When do we want to deviate from that? Are we doing so for a good reason?

I have seen brilliant entrepreneurial strategies falter as an organization grows and matures. Obviously, you manage a \$25 billion company differently than you do a \$25 million company. But you change your practices, not your *principles*. You learn how to communicate with large numbers of employees by using videotapes, newsletters, weekly updates, frequent visits to the field. You share not only what's going on in the company, but in the industry and the marketplace. You are careful that people don't preoccupy themselves with cosmetic things like offices and titles. You delegate more and more, and make yourself available as a troubleshooter. You go to meetings not to issue orders or instructions; you go to learn the problems people are having and to see if you can help. You remember that systems are not masters -- they're servants in helping you carry out your mission. And that nothing comes ahead of your people.

If you take an ongoing, genuine interest in the well-being of your people, outside as well as

inside the workplace, you eventually create trust. That leads to things like our extraordinary pilots contract, with the pilots taking stock options for five years instead of pay increases. (To show good faith, I also took a five-year wage and bonus freeze.) But that kind of community building is not formulaic; if you try to program it, you destroy it.



Working for a Worthy Cause

OUR real accomplishment is to have inspired our people to buy into a concept, to share a feeling and an attitude, to identify with the company -- and then to execute. Because our low-fare strategy is so central to who we are, our employees are enormously cost-conscious. We don't have the traditional budget struggles at the end of the year. That's not to say that we don't argue over budget allocations, but it's rare that a manager submits an inflated budget thinking, "If I ask for 200 percent more, maybe I'll get 100 percent." That's just not us.

But you need to spend more time on the intangibles than the tangibles to create that kind of buy-in. For example, I have told our people in the field -- mostly young people -- that my hope is that when they're talking to their grandchildren, they say that Southwest Airlines was one of the finest experiences they ever had; that it helped them grow beyond anything they thought possible. We are not afraid to talk to our people with emotion. We're not afraid to tell them, "We love you." Because we do.

One of the managers in our People Department once said, "The important thing is to take the bricklayer and make him understand that he's building a home, not just laying bricks." So we take the building a home approach: This is what you're doing not only for yourself but for society: giving people who'd otherwise not be able to travel the opportunity to do so; making it possible for grandparents to see their grandchildren for holidays, or for a working mom to take her son to see the World Series -- for less than the cost of a ticket to the game. We constantly hold up examples of customer experiences and of employee efforts to make a difference.



Building Employee Partnership

YOU can't have a culture of commitment and performance without equitable employee compensation, and that includes executive compensation. Our officers -- whom I consider the best in the business -- are paid 30 percent less, on average, than their counterparts at other airlines, and at companies of similar size in other industries. On the other hand, most of our employees are at or above average pay levels in our industry. We try to make up that difference to our officers with stock options, but of course that depends on how well the company does.

We also have provided profit sharing to all employees for the past 24 years. We want them to have a significant ownership of Southwest Airlines. We want them to share our success. We want to offer top-notch benefit programs. But in return for this we want our people to be productive. And we achieve productivity through people's enthusiasm and dedication, to be sure -- but also through work rules that encourage flexibility and cooperation up, down, and across our organization. I think it says a lot that we have had no layoffs and only one strike in our 25-year history.

Our most important tools for building employee partnership are job security and a stimulating work environment. Our union leadership has recognized that we provide job security, and there hasn't been a lot of that in the airline industry. Certainly there were times when we could have made substantially more profits in the short term if we had

hurting people, but we didn't. We were looking at our employees' and our company's longer-term interests. And, as it turns out, providing job security imposes additional discipline, because if your goal is to avoid layoffs, then you hire very sparingly. So our commitment to job security has actually helped us keep our labor force smaller and more productive than our competitors'.

But it's not enough to try to assure people a job; equally important is allowing them to feel liberated when they come to work, to be creative, to think outside the lines. To foster problem solving and cooperation, for example, we have the Walk a Mile program, in which any employee can do somebody else's job for a day. The operations agents cannot fly the planes, but the pilots can -- and do -- work as operations agents. (They also, on their own, have held barbecues for all our mechanics, to thank them for keeping our planes flying.) Seventy-five percent of our 20,000 people have participated in the job-swapping program. It's an administrative nightmare, but one of the best tools I know for building understanding and collaboration.

Training is another way you forge committed partnership. Naturally, an airline must train every employee, but our most important training is not in how to manage or administer but in how to lead. Originally that training was part of our pilots' crew-resource management program; it focused on how the first officer and the pilot relate to each other, how they exchange information, and how they focus on the task at hand. In short, how they work as a team. Today we have reservation sales agents, flight attendants, mechanics, administrative staff in those classes, as well as the cockpit crews.

Above all, you have to seize everyday opportunities to build bridges between people, especially in moments of crisis. Some years ago, for instance, one of our employee groups, in effect, voted itself out of its union. Many of the rank and file were feeling insecure about their future, so we gave them a personal contract signed by me. It provided for a grievance procedure, arbitration procedure, and so on. Several labor lawyers and professors called me and asked if that was legal. (I thought it was *their* job to tell *me*.) But they missed the point. Our agreement with those employees was a matter of good faith; it didn't need to be legally enforceable. We didn't set up an iota of the structure that the experts recommended, and a year later we had no grievances pending. They were all handled informally, by people with good will getting together and talking to each other.



Why Competition Helps Us

FIFTEEN years ago competitors were saying, "We're going to be the next Southwest Airlines." But they didn't really understand who we were. Most of them did not really imitate Southwest Airlines; they ended up creating new versions of themselves. But today we have a new wave of competition. Everybody's had an additional decade to learn -- and many carriers, including the majors, are very precisely defining new niches and executing their strategy very well. The competition is tougher than ever. But in virtually every market in which we compete, the market has grown. In California, for instance, where Shuttle by United has invested millions of dollars to win a piece of our business, we have maintained our 50 percent share of the market -- but are now carrying many more passengers than we did three years ago.

That's because, despite what the experts say, air travel is not a commodity business. We market ourselves based on the personality and spirit of ourselves. That sounds like an easy claim, but, in fact, it is a supremely dangerous position to stake out, because if you're wrong customers will let you know -- with a vengeance. Customers are like a force of nature -- you can't fool them, and you ignore them at your own peril.